

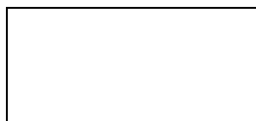
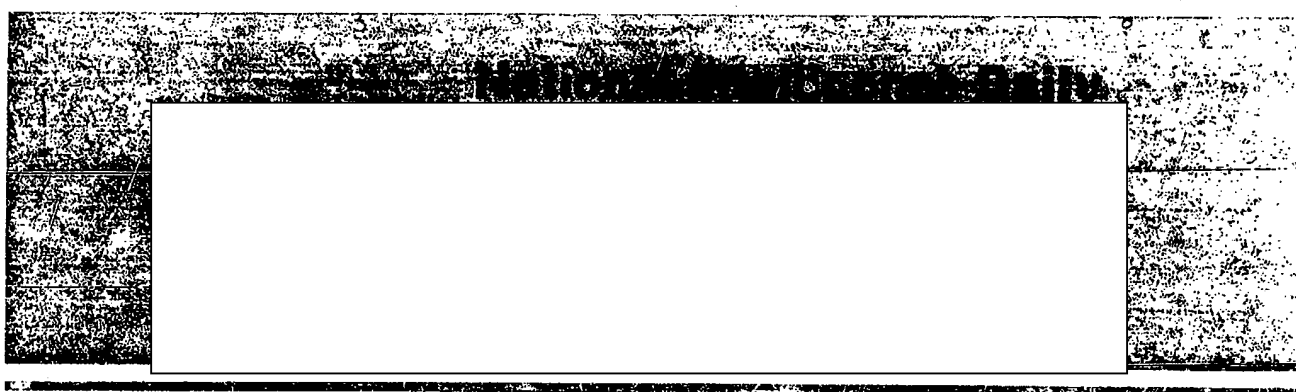


Director of
Central
Intelligence

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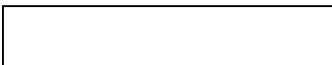
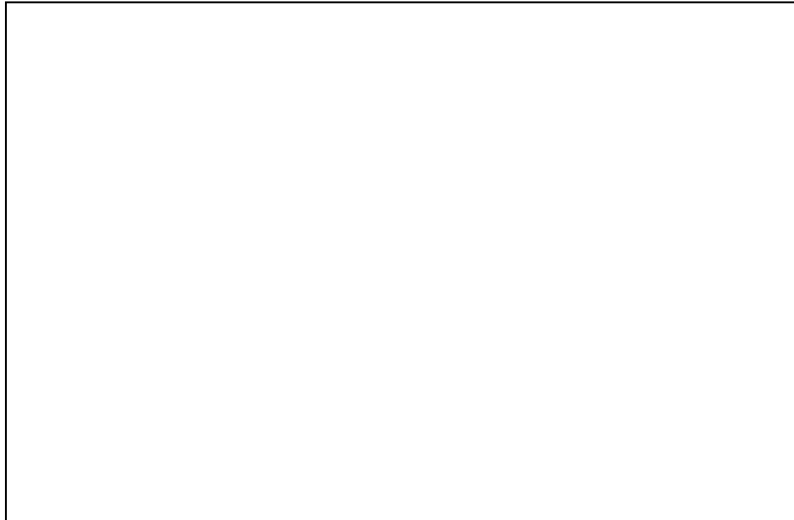
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Persian Gulf: Tough Talk From Both Sides 1



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PERSIAN GULF:

Tough Talk From Both Sides

Iraq is hardening its position on the Gulf conflict and is setting the stage for further escalation. Iran believes it can pressure the Gulf states into withdrawing support from Iraq, and it has boarded another ship in the southern Gulf. Iran probably will retaliate for Iraq's latest airstrikes, and the Gulf Arabs are seeking additional air defense weapons. There have been no major changes in oil spot markets or insurance rates.

The ruling Ba'th Party newspaper threatened yesterday that Khark Island will be destroyed if Iran launches the new land offensive that Baghdad expects. To underscore the threat, Iraq claimed yesterday to have struck the Iranian oil refinery at Tabriz and a pumping station near Khorramabad. Another Iraqi newspaper warned that the conflict will worsen if diplomatic efforts do not force Iran to negotiate.

Iraq has attacked the Tabriz refinery on three previous occasions, inflicting only moderate damage. If the refinery has suffered serious damage this time, Iran could lose approximately 15 percent of its domestic oil refining capability. Iran probably will feel compelled to retaliate for Iraq's latest attacks, possibly by trying to hit an Iraqi or Kuwaiti refinery.

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Iran is interpreting efforts at the UN to achieve an evenhanded resolution on the crisis as a sign that world opinion is shifting in its favor and that the Arab position has weakened. A Security Council resolution condemning both Iranian and Iraqi attacks on shipping will be a blow to the Gulf states, whose own draft singled out Iran as the party responsible for the escalation.

Tanker Attack

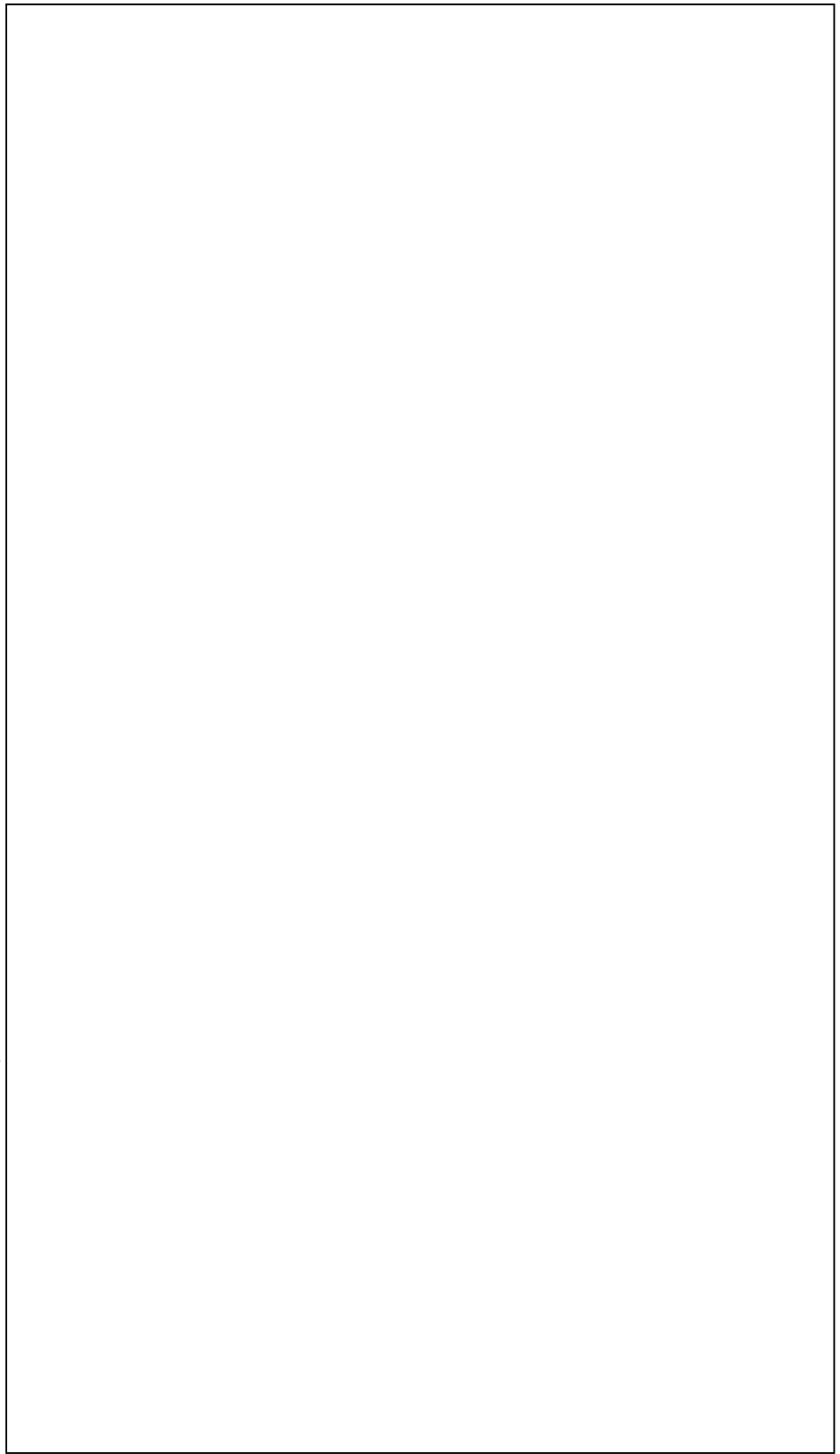
The identity of ships—if any—hit by Iraq's attack on Wednesday remains unclear. Some reporting indicates that the 256,000-ton Liberian tanker *Atlantico* was hit, but other reports claim that the ship successfully loaded oil at Khark and departed.

Military Situation

The Iranians yesterday boarded a Singaporean merchant ship that had left a port in Oman bound for Dubai.

On 24 May, Iran seized a small Swiss-owned tugboat in the Strait of Hormuz and forced it to proceed to Bandar-e Abbas.

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